

IDC MarketScape: North American Small Business Lending Customer Experience Solutions 2023-2024 Vendor Assessment

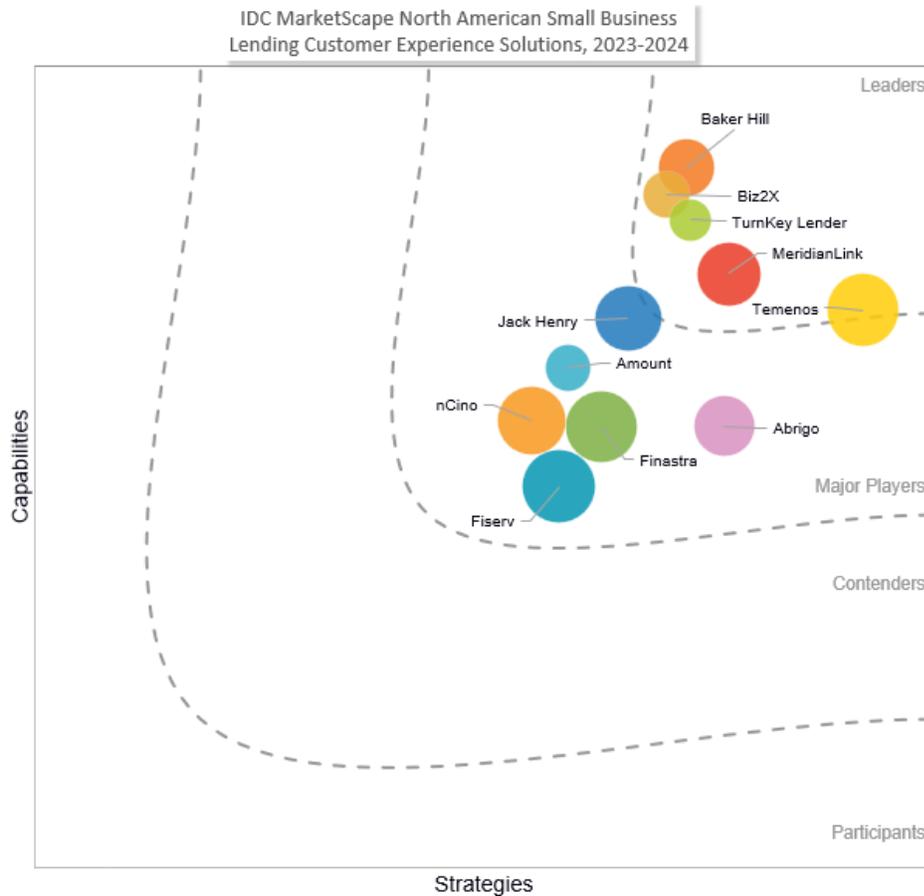
Marc DeCastro Raymond Pucci

THIS IDC MARKETSCAPE EXCERPT FEATURES TEMENOS

IDC MARKETSCAPE FIGURE

FIGURE 1

IDC MarketScape North American Small Business Lending Customer Experience Solutions Vendor Assessment



Source: IDC, 2023

Please see the Appendix for detailed methodology, market definition, and scoring criteria.

IN THIS EXCERPT

The content for this excerpt was taken directly from IDC MarketScape: North American Small Business Lending Customer Experience Solutions 2023-2024 Vendor Assessment (Doc #US49787323). All or parts of the following sections are included in this excerpt: IDC Opinion, IDC MarketScape Vendor Inclusion Criteria, Essential Guidance, Vendor Summary Profile, Appendix and Learn More. Also included is Figure 1.

IDC OPINION

The importance of attracting and retaining small business customers has become a key strategic focus of most retail banking executives. As the vast majority of small business customers are likely part of the retail banking division, others may have their own representation within the institution, while some may support small business customers through their commercial banking division, but the fact remains that the tools provided to small business customers are often the same tools provided to retail customers, particularly when it comes to online and mobile options. This is however not the case when looking at the credit needs of these small business customers.

Small business lending has experienced significant changes in recent years. The emergence of financial technology (fintech) and nonbank lenders changed the competitive mix of credit providers. Community banks and credit unions were once a mainstay for small business borrowers but had been slower to transition to lending technology that brought speed and scalability to the lending process resulting in lost market share. Now financial institutions have stepped up their technology buying, and along with fintechs, they find a wide selection of lending platform vendors that can streamline and elevate their lending decisioning proficiency while creating outstanding customer experiences (CXs).

The current small business lending market provides increasing opportunities for lenders because small businesses are using lending for reasons beyond just working capital loans. They are looking to lenders for various loan types including supply chain financing, accounts receivable/invoice factoring, lines of credit, business to business, and buy now, pay later (BNPL) marketplaces. These are areas that both traditional and nontraditional lenders can find success when using the right lending decisioning and customer experience platforms that are especially important now that financial institutions and fintechs find themselves under macroeconomic and financial pressures that require cost savings and operational productivity enhancements.

Lenders must increase their investment in technology applications to capitalize on small businesses' growing cash flow needs. These lending software vendors have developed artificial intelligence (AI) and cognitive technologies that enhance loan origination and credit decisioning with a focus on creating a modern front-end experience. This involves streamlining the end-to-end loan processing function including data collection, document management, applicant verification, credit analysis, and underwriting. Lenders can also establish an enterprise intelligence system that accelerates loan processing functions including credit decisioning. The technology represents a major step forward to streamline the complex processes involved with loan origination and credit decisioning for borrowers. Enterprise intelligence assists lenders in making faster and more accurate decisions through location-independent data, analytics, AI, machine learning, and automation. Not only does enterprise intelligence deliver credit decisioning velocity, but it also does this while reducing risk.

In addition to providing small business lenders and staff with the tools needed to make accurate and risk-managed decisions, customer experience platforms must present an efficient and accessible

interface with their borrowers that are becoming more selective with choosing a lender. Many are sole proprietorships that have similar digital banking characteristics as consumers. But many times, they have more frequent and varied borrower needs to maintain cash flow for normal operating expenses and unexpected events. Small business owners want a frictionless loan experience requiring lenders to have a streamlined process that leads to a rapid credit decision. Lenders will find that the relationships can lead to long-term customers and provide opportunities to deepen the relationships.

Today's lending market offers a crowded field of vendors with lending platforms for automating loan origination leading to loan decisioning and closing. This document presents a short list of small business lending customer experience solutions vendors in North America for 2023-2024 using the IDC MarketScape model. The research in this study quantitatively and qualitatively assesses multiple characteristics that help explain a vendor's success and position in the marketplace relative to the vendor's peers. All of the vendors in this study provide current solutions for North American financial institutions and fintechs to deploy advanced lending decisioning workflows. These technology vendors submitted an in-depth account of their current capabilities and strategies for this document. In addition, reference clients were interviewed to assess the vendor's ability to meet the lending market's strategic needs and current requirements.

IDC MARKETSCAPE VENDOR INCLUSION CRITERIA

For this IDC MarketScape on small business lending customer experience solutions, the vendors must:

- Have an established reputation offering small business lending software solutions sold directly to financial institutions or fintechs with significant revenue from banks, credit unions, and technology companies.
- Have a solution in production for multiple North American clients for a minimum of six months and whose primary market is North America, or the vendor must have identified the region as a key area for growth.
- Provide an out-of-the-box solution or application that can be configured with the lender's look and feel and can provide the lender's client with a certain level of customization.
- Provide a front-end solution for applying for small business loans including but not limited to data collection, document management, borrower identification, and digital communications.
- Provide a decisioning solution for credit decisioning and back-end platforms for small business loans including but not limited to underwriting, credit check, regulatory compliance, decisioning, notification, and funding.

ADVICE FOR TECHNOLOGY BUYERS

Use this IDC MarketScape for vendor selection and as part of a due diligence process. Financial institutions and fintech lenders can use this IDC MarketScape to help develop a short list of vendors from which to solicit information, including demos, about their product or services. Technology buyers may use this study to evaluate a vendor's proposal and demonstrate the breadth and depth of a provider's capabilities compared with the overall market.

This IDC MarketScape is one of two documents related to small business lending software with selected vendors that have both front-end customer experience and back-end lending decisioning solutions and platforms. As our study unfolded, it became clear that few vendors will provide a back-

end platform without having a front-end customer experience component; thus the process for this IDC MarketScape used the decisioning platform as the foundation for all the studies. Satisfaction and more front-end flexibility in regard to overall customer experience were then factored into the customer experience document to provide a holistic approach to providing an end-to-end solution analysis. We encourage all technology buyers to determine their own best strategy regarding their small business lending approach, whether looking for a modern back-end system to complement a custom-built or third-party front-end experience or when looking for an entire end-to-end approach.

Some considerations for internal preparation and vendor selection are:

- Develop or update an organizational technology road map to include:
 - Integration with other internal systems
 - Impact on other technology partners/vendors
 - Technology gaps and lending that must be identified and resolved
 - Project time frame for system planning and implementation
 - Decision makers and stakeholders
 - Ownership of new systems
 - Resources and skill sets required for success
 - Risk management and data governance issues
 - Current and future regulatory impact
- Assess vendor capabilities and experience for:
 - Small business lending markets and a wide mix of business loans
 - Lenders of your size and customer base
 - Hands-on demonstration
 - Knowledge of lending laws and regulations
 - Fraud management features
 - System investment and upgrade plans
 - Customization and configurability options
 - Total cost of ownership on annual basis
- Consider additional IT and organizational factors:
 - Understand the borrower's journey in seeking and obtaining a loan from beginning to end; small businesses are accustomed to streamlined processes for digital transactions, and the user interface of technology platforms is usually a differentiating factor
 - Prioritize customer experience and sustainable engagement over just transaction processing; lending may be a small business' first experience with a lender and can open a range of cross-selling opportunities that contribute to lifetime customer value
 - Establish a data-driven culture with investment in technology and skill sets to enhance data literacy and competence across the organization
 - Practice collective learning by sharing of knowledge and data across enterprise by continuous data capture and assimilation
 - Assimilate analysis of internal and external data across the organization to develop insights and establish institutional knowledge

- Improve business outcomes by delivering data insight and business intelligence throughout lending operations calibrated for time, context, and scale
- Invest in lending staff training to gain expertise in using AI solutions used in credit decision-making
- Develop an enterprise intelligence road map that considers risk, security, governance, and regulatory compliance

VENDOR SUMMARY PROFILES

This section briefly explains IDC's key observations resulting in a vendor's position in the IDC MarketScape. While every vendor is evaluated against each of the criteria outlined in the Appendix, the description here provides a summary of each vendor's strengths and challenges.

Temenos

Temenos is positioned in the Leaders category in this 2023-2024 IDC MarketScape for small business lending customer experience solutions.

Quick facts about Temenos include:

- **Year founded:** 1993
- **Company headquarters:** Geneva, Switzerland
- **Number of employees:** 7,500
- **Ownership:** Public
- **Brand/product:** Temenos Banking Cloud Lending

Temenos is a financial technology vendor with financial institution clients around the world. It operates a cloud-native platform with partnerships with all the major hyperscalers. Deployment options for banking clients include cloud and SaaS. Banks may leverage its R&D resources. Temenos delivers decisioning platforms for small business lending products including working capital, lines of credit, vehicle and equipment loans, and real estate.

Strengths

- Comprehensive digital banking and lending platforms
- Supports alternative credit data sources for lending decisions
- Composable banking features that provide choice and flexibility for bank clients

Challenges

- Smaller financial institutions may be overshadowed by larger bank clients.
- The North American market competes for future product development with other geographies of Temenos.
- Temenos lags behind in components of total cost of ownership.

Consider Temenos When

Regional, community banks, and credit unions, plus challenger banks, should consider Temenos when looking for front-to-back core and digital banking platforms for small business lending.

APPENDIX

Reading an IDC MarketScape Graph

For the purposes of this analysis, IDC divided potential key measures for success into two primary categories: capabilities and strategies.

Positioning on the y-axis reflects the vendor's current capabilities and menu of services and how well aligned the vendor is to customer needs. The capabilities category focuses on the capabilities of the company and product today, here, and now. Under this category, IDC analysts will look at how well a vendor is building/delivering capabilities that enable it to execute its chosen strategy in the market.

Positioning on the x-axis, or strategies axis, indicates how well the vendor's future strategy aligns with what customers will require in three to five years. The strategies category focuses on high-level decisions and underlying assumptions about offerings, customer segments, and business and go-to-market plans for the next three to five years.

The size of the individual vendor markers in the IDC MarketScape represents the market share of each individual vendor within the specific market segment being assessed.

The 11 small business lending customer experience solution providers evaluated in this IDC MarketScape provide strategic direction and ongoing support for a financial institution or fintech's small business lending needs. All vendors in this study were assessed in the Leaders or Major Players categories as a result of their respective ability to address most small business lending needs of any North American institution. Each vendor supported a number of use cases consistent with providing a complete end-to-end small business banking solution.

IDC MarketScape Methodology

IDC MarketScape criteria selection, weightings, and vendor scores represent well-researched IDC judgment about the market and specific vendors. IDC analysts tailor the range of standard characteristics by which vendors are measured through structured discussions, surveys, and interviews with market leaders, participants, and end users. Market weightings are based on user interviews, buyer surveys, and the input of IDC experts in each market. IDC analysts base individual vendor scores, and ultimately vendor positions on the IDC MarketScape, on detailed surveys and interviews with the vendors, publicly available information, and end-user experiences in an effort to provide an accurate and consistent assessment of each vendor's characteristics, behavior, and capability.

Market Definition

This IDC study represents an assessment of North American vendors in the small business lending segment. Small business lending is defined as any secured or unsecured loan, except for mortgage-related products, provided to a small business owner. This study is a quantitative and qualitative analysis of the features, functionalities, and strategic road maps that explain the success of the major small business lending solution providers with a particular focus on the front-end customer experience.

This IDC MarketScape is a part of a series of four evaluations that will encompass the customer experience and decisioning platforms in both the consumer lending and small business lending segments.

LEARN MORE

Related Research

- *IDC MarketScape: North America Small Business Lending Decisioning Platform Solutions 2023-2024 Vendor Assessment* (IDC #US49787523, forthcoming)
- *IDC FutureScape: Worldwide Banking 2024 Predictions* (IDC #US51290623, October 2023)
- *IDC FutureScape: Worldwide Digital Lending 2024 Predictions* (IDC #US51287823, October 2023)
- *IDC's Worldwide Digital Transformation Use Case Taxonomy, 2023: Banking* (IDC #US51177723, September 2023)
- *2023 IDC FinTech Rankings: Trends and Analysis of Most Influential Global FinTechs* (IDC #US49993423, September 2023)
- *Will U.S. Regional and Community Banks Thrive, Survive, or Cave In?* (IDC #lcUS50853723, June 2023)
- *Banks' Stricter Lending Standards Squeeze Small Businesses* (IDC #lcUS50866723, June 2023)
- *Digital Banking Expectations Increasing Across North America Small Business Customers* (IDC #US49993223, April 2023)

Synopsis

This IDC study uses the IDC MarketScape model to provide an assessment of a select list of technology vendors that offer small business lending customer experience solutions to financial institutions and fintechs that provide a variety of business loans in the North American market.

"Over the past few years, the amount of small business ownership has risen sharply creating more opportunities for financial institutions to deepen their relationships with their customers," says Marc DeCastro, research director, Consumer Banking Digital Strategies at IDC. "As these small businesses grow, they will likely require access to credit and will gravitate toward solutions that are easy to use and tailored to their needs, whether that be from a traditional lender, a nonbank lender, or a pure digital lender. Finding the right solution will be key to attract this growing and profitable customer segment."

About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets. With more than 1,300 analysts worldwide, IDC offers global, regional, and local expertise on technology, IT benchmarking and sourcing, and industry opportunities and trends in over 110 countries. IDC's analysis and insight helps IT professionals, business executives, and the investment community to make fact-based technology decisions and to achieve their key business objectives. Founded in 1964, IDC is a wholly owned subsidiary of International Data Group (IDG, Inc.).

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